

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 SPC-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 SS-20 STR-08 OMB-01 CEA-02 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

L-03 H-03 PA-04 PRS-01 USIA-15 EUR-25 NEA-10 IO-14

DRC-01 /201 W

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R 220245Z MAR 74

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 2083

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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 3/22/75

TAGS: EAID, EFIN

SUBJECT: TERMS OF SPECIAL FUNDS LOANS

REF: MANILA 2313

SUMMARY: BOARD DISCUSSION HELD MARCH 21 SUPPORTED PROPOSED CHANGE AND STANDARDIZATION TERMS OF SPECIAL FUNDS LENDING TO SINGLE 1 PERCENT INTEREST RATE WITH REPAYMENT IN 40 YEARS. SEVERAL DIRECTORS NOTED ADB WORKING PAPER ON ABOVE SUBJECT FAILED TO INCLUDE CRITERIA FOR DETERMINING BORROWER ELIGIBILITY, AND DID NOT ADEQUATELY DETAIL FINANCIAL IMPACT ON BANK RESOURCES OF LOWER INTEREST RATE. MANAGEMENT AGREED TO STRENGTHEN FINANCIAL ANALYSIS AND PREPARE PAPER ON CRITERIA FOR BOARD CONSIDERATION BEFORE END MAY. END SUMMARY.

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1. ADB WORKING PAPER ON ABOVE SUBJECT CONSIDERED BY

BOARD OF DIRECTORS MARCH 21. DIRECTORS FAVORED SOFTENING TERMS OF ADB SPECIAL FUNDS LENDING, AND GENERALLY SUPPORTED ADOPTION UNIFORM 1 PERCENT INTEREST RATE, 40-YEAR REPAYMENT IN LIEU OF PREVIOUSLY VARYING INTEREST RATES AND AMORTIZATION PERIODS.

2. STAFF NOTED TWO PENDING SPECIAL FUNDS LOANS, VIENTIANE WATER SUPPLY AND NEPAL 2ND AGRICULTURAL CREDIT, WERE DRAFTED TO PERMIT RETROACTIVITY THESE TERMS PENDING BOARD ADOPTION. THIS WAS NOT OPPOSED BY BOARD.

3. SEVERAL DIRECTORS NOTED THAT FLEXIBILITY FOR CONSIDERING DIFFERENTIAL STATUS DEVELOPING MEMBER COUNTRIES PROPOSED IN PARA. 9 WORKING PAPER BY "JUDICIOUS COMBINATION" OF SPECIAL AND ORDINARY LOANS, GAVE NO INDICATION OF CRITERIA TO BE USED FOR DETERMINING MIX OF LOANS NOR HOW IT WOULD BE APPLIED.

4. CITATION OF IDB SYSTEM GROUPING COUNTRIES INTO CATEGORIES ACCORDING VARIOUS ECONOMIC INDICATORS SUCH AS PER CAPITA PRODUCT, INVESTMENT COEFFICIENT, POPULATION GROWTH RATES, ETC., ELICITED MANAGEMENT VIEW SUCH A SYSTEM TOO COMPLEX AND UNWIELDLY FOR ADB, ALTHOUGH SOME DIRECTORS STATED PER CAPITA INCOME ALONE INSUFFICIENT CRITERION TO DETERMINE CONCESSIONALITY TO BE APPLIED. BOARD REJECTED IDA APPROACH OF FLAT PER CAPITA CEILING AS SOLE DETERMINANT SOFT LOAN ELIGIBILITY.

5. MOST DEVELOPED COUNTRY DIRECTORS URGED INSEPARABILITY CRITERIA QUESTION FROM ANY BOARD DECISION ON SOFTENING OF TERMS, BUT MANAGEMENT RESPONSE THIS WAS COMPLICATED TASK, AND URGED THAT DECISION ON SOFTENING SHOULD NOT BE POSTPONED. DEVELOPING COUNTRY DIRECTORS ARGUED FOR IMMEDIATE ADOPTION SOFTER TERMS WITH STAFF CRITERIA STUDY TO FOLLOW LATER.

6. USADB POINTED OUT WORKING PAPER ANNEX 2 PROVIDED INSUFFICIENT BASIS DETERMINE CONSEQUENCES RE FUTURE AVAILABILITY BANK LENDING RESOURCES IF ALL SPECIAL FUNDS LENDING MADE AT PROPOSED TERMS. STAFF AGREED PREPARE MORE DETAILED FINANCIAL ANALYSIS. USADB RECOMMENDATION DESIRABILITY BANK RETAIN SOME FLEXIBILITY IN NEGOTIATING POSTURE WITH BORROWERS ANSWERED BY MANAGEMENT ASSERTION "JUDICIOUS" MIX OF LOANS LIMITED OFFICIAL USE

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WOULD ACCOMPLISH THIS.

7. BOARD CONCLUDED DISCUSSION WITH ACCEPTANCE PROPOSED TERMS WITH UNDERSTANDING MANAGEMENT WOULD PROVIDE CRITERIA POLICY PAPER BEFORE END OF MAY FOR BOARD CONSIDERATION PRIOR EFFECTIVE DATE ASIAN DEVELOPMENT FUND AND WOULD STRENGTHEN FINANCIAL IMPACT ANALYSIS IN WORKING PAPER. BOARD DOCUMENT TO BE ISSUED WILL REFLECT ABOVE VIEWS OF BOARD.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BANK LOANS, INTEREST RATES, DEVELOPMENT BANKS, BANK RATES
Control Number: n/a
Copy: SINGLE
Draft Date: 22 MAR 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974MANILA03382
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740061-0389
From: MANILA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740323/aaaaavbh.tel
Line Count: 116
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: MANILA 2313
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 06 AUG 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <06-Aug-2002 by shawdg>; APPROVED <06-Aug-2002 by MorefiRH>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: TERMS OF SPECIAL FUNDS LOANS
TAGS: EAID, EFIN, RP, US
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005